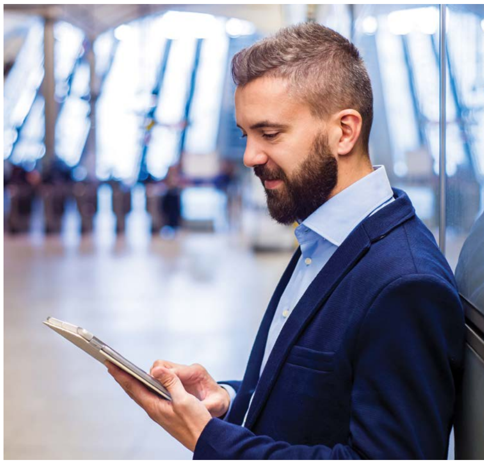
ASSET MANAGEMENT SOLUTIONS

The Retail Distribution Playbook

Seven essential actions to navigate the changing landscape of asset management



Ready for Next

This paper delivers unique, data-driven insights and outlines the seven actions that distribution leadership can take now to build a more profitable future. We map the changing landscape to help you stay ahead in an evolving market.

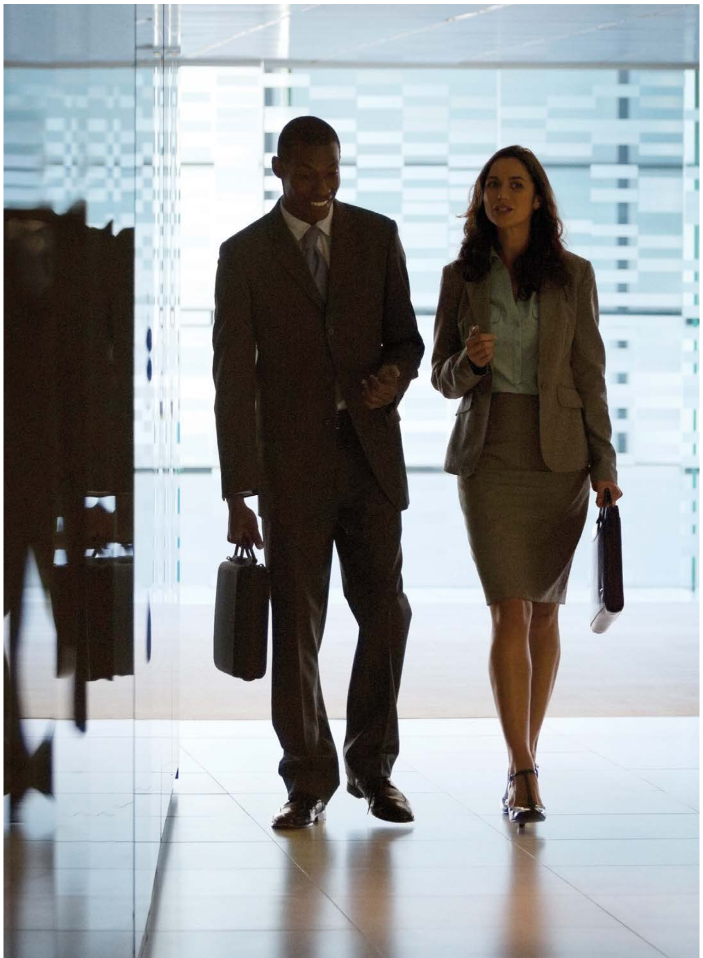
THE LANDSCAPE HAS CHANGED. ARE YOU READY?

Asset managers need to keep pace with the rapidly evolving needs of financial advisors. Advisors are under pressure to grow their book of business and respond to the unique needs of a younger generation of investors. Advisors are demonstrating a growing preference for ETFs and Separately Managed Accounts (SMAs) while ESG products are on the rise.

Digital technology is increasing investor knowledge about available options and enabling expansive consumption of alternative advisory services. Investor demands for lower fees and solution-based offerings, along with regulatory demands for greater transparency, have fueled an industry-wide shift to fee-based models and a growing interest in scalable investment solutions that allow more time for clients.

These converging trends are accelerating transformation in asset management. And they only intensified during COVID-19. Distribution leadership requires a nimble strategy to adapt.

To help asset managers seize the moment, Broadridge has compiled industry insights from its latest research studies and data analytics offerings.



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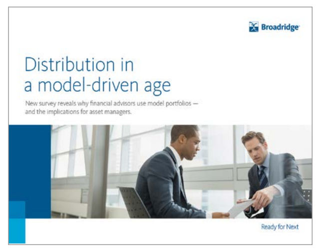
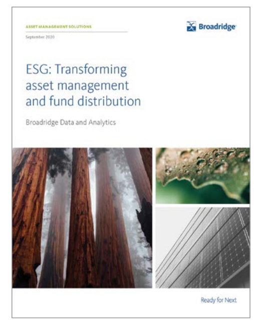
METHODOLOGY

The Distribution Playbook takes a deep dive into three critical issues impacting the industry: advisory business models, Exchange-Traded Funds (ETFs) and Environmental, Social and Corporate Governance (ESG). This report is based on original research drawn from Broadridge's extensive industry expertise and systems, capturing assets and fund flows across 95% of mutual funds and ETFs sold through financial intermediaries. Additionally, this white paper illuminates data trends across six research studies, which included over 2,000 advisor survey responses.

Distribution in a Model-Driven Age ›



ESG: Transforming Asset Management and Fund Distribution ›



ETF Outlook 2020 ›

The Dawn of Active Nontransparent ETFs ›

The Future of Advice ›

The Impact of 2020 on Advice–and Advisors ›

SECTION 1: HOW EVOLVING ADVISORY BUSINESS MODELS IMPACT DISTRIBUTION

Several factors have precipitated changes to advisory business models and the shift toward fee-based practices. The bottom line: Advisors are looking to streamline the investment management process. They want to manage their practice more efficiently, grow their book of business and better respond to the diverse needs of investors.

Asset managers may struggle to meet shifting advisor demands as the distinctions between channels become increasingly blurred. Our research has uncovered four pivotal and converging trends:

- Fee-based business is firmly established as the new norm.
- Advisors are increasing their reliance on models.
- Advisors are also demonstrating a growing preference for ETFs and Separately Managed Accounts (SMAs).
- ESG products are on the rise.

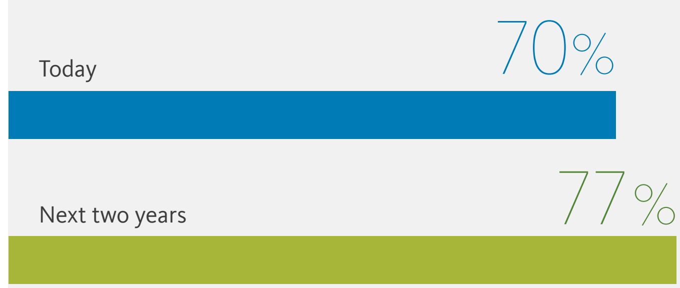
Firms should understand how advisors are leveraging models within fee-based business—and how those usage trends project going forward—so distribution leadership can take specific steps to improve their positioning in response.

WE ARE LIVING IN A FEE-BASED WORLD

Fee-based business is dominating the industry and continues to transform the advisor-investor relationship at an accelerated pace. The heightened fiduciary focus has played a role in propelling this trend forward. Technology has afforded greater transparency and access, enabling the rise of lower fee passive products, solutions-based offerings, robo-advisory platforms and the era of zero-commission trading.

The industry-wide shift toward digitization is apparent, significantly impacting the way advisors and investors engage with each other. Advisors are required to adopt digital tools to deliver more value and distinguish themselves in an increasingly saturated market. As a younger, tech-savvy generation of investors emerges, advisors must reimagine client engagement from every angle. This is especially relevant with an anticipated wealth transfer of over $68 trillion to millennials on the horizon.[1]

Advisors indicate that a significant majority (70%) of their book of business is fee-based. These same advisors project a steady increase (77%) in fee-based business in two years.



ACTION 1

Recognize that advisors have options—and act accordingly.

As an asset manager today, you cannot afford to be rigid in your approach to the market. The choices available to advisors only continue to expand. The evolving complexity of advisor business models and diverse needs of investors require asset managers to reimagine how products are packaged and how advisors can access these investment solutions. As more advisors shift to fee-based business, many will require different or new solutions selecting products that better align with a fee-based strategy. Asset managers who prioritize product diversity, flexibility and accessibility, effectively aligning offerings with the needs of targeted advisor segments, will gain a competitive edge.

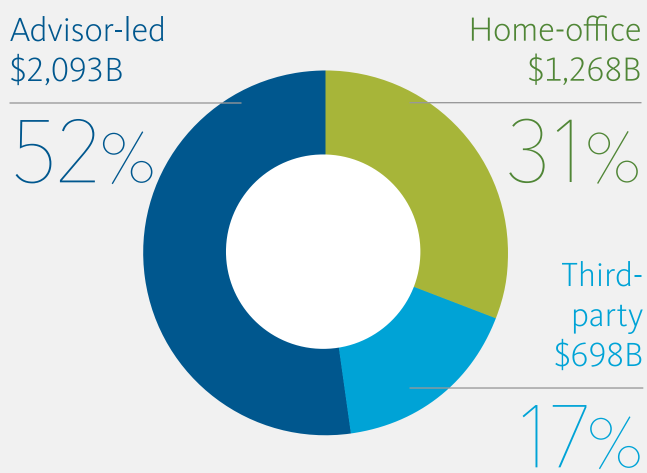
MODEL USAGE FUELS MORE EFFICIENT BUSINESS GROWTH

Advisors are seeking more effective ways to balance sustaining practice growth with the activities that demand most of their time: portfolio management and client service. More advisors are relying on models to manage assets—allowing for more time to focus on client retention and acquisition.

Model adoption offers many opportunities, enabling advisors to drive scale and mitigate risk. From 2020 to 2022, model use is projected to rise among a majority of advisors—53% plan to increase use compared to 4% who anticipate decreasing.

Based on the activities of the initiating firms and offices, we have classified models into three major segments: Advisor-led, home-office and third-party. As of 3Q 2020, the model portfolio industry currently stands at $4.1 trillion; advisor-led was the largest industry segment comprising $2.1 trillion, or roughly 52% of total model assets.

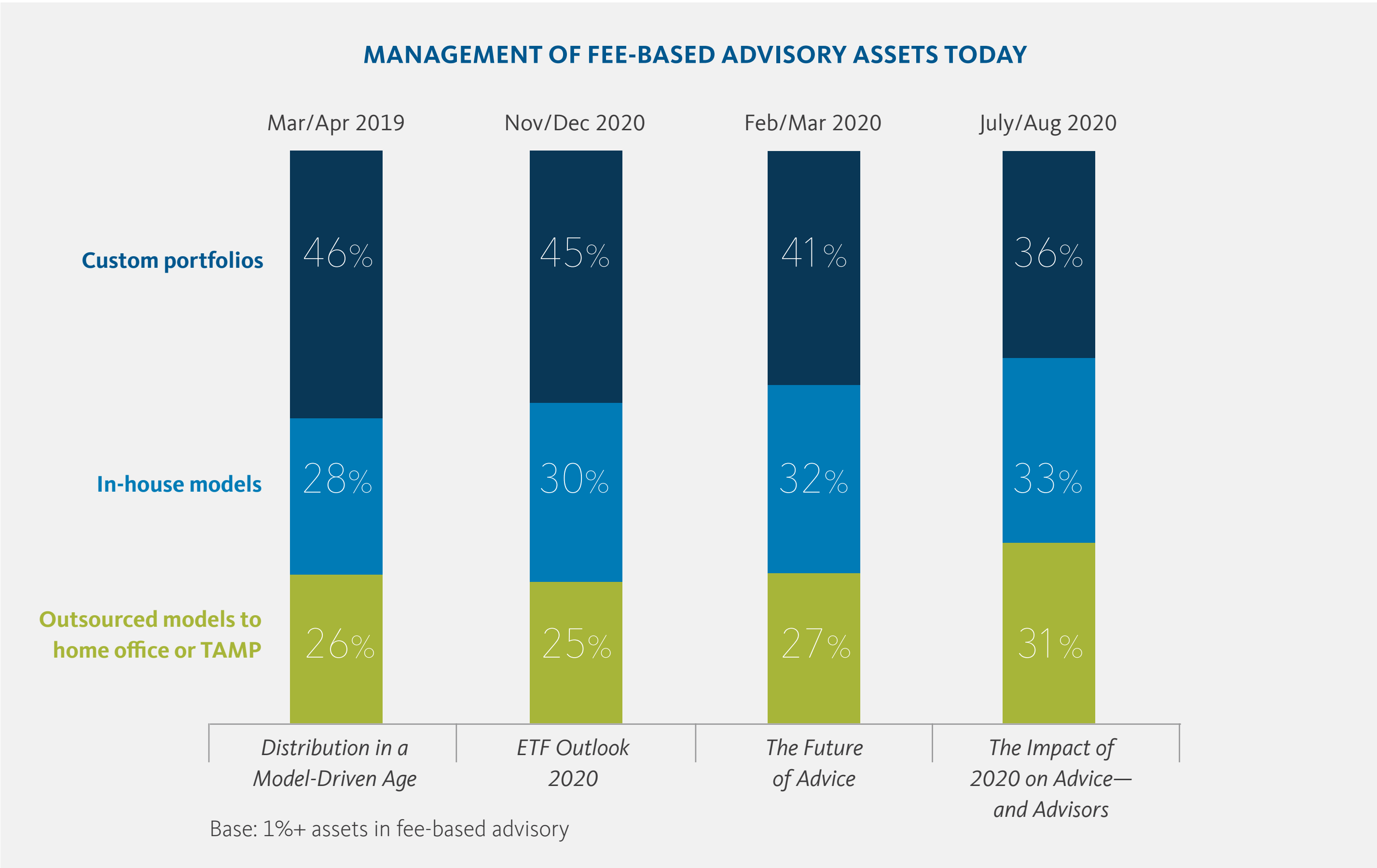
ASSETS UNDER MANAGEMENT



Source: Model Quarterly Trend Report, Broadridge Data & Analytics

Broadridge classifies models into three segment types, based on activities of initiating firm and offices, to help asset managers locate and quantify points of sales influence.

Home-office	Third-party	Advisor-led
Home-office models are instances in which the majority of model-owning shareholders are located within a ***single*** initiating firm across ***multiple*** offices (e.g., 20 offices of a Wirehouse). In these cases, FAs outsource money management to the home office and an internal research group takes on discretionary investment responsibility for model allocation. FAs pay a fee for these services.	Third-party models are instances in which the majority of model-owning shareholders are located across ***multiple*** initiating firms (e.g., seven regionals). Similar to the home-office model, FAs also cede investment discretion to a centralized decision-making group such as a TAMP or third-party strategist. FAs pay a fee for these bundled investment, reporting and platform services.	Advisor-led models are instances in which a majority of shareholders are located within a ***single*** initiating firm and ***single*** office (i.e., single office at IBD). Unlike home-office and third-party models, in which investment decisions are made centrally, advisor-led models are managed in-house by FAs and their teams. The models deployed could be built from scratch, but more often they leverage another offering from a model maker (i.e., home office, third-party strategist, asset manager "paper portfolio," another FA) and are then tweaked accordingly. Typically, the FA does not pay any allocation fees in this model.



Various surveys of financial advisors from March 2019 to August 2020 demonstrate a downward trend in custom portfolios while advisor-led and outsourced models gained momentum. However, the majority of advisors (70%) still leverage a combination of both model and custom portfolios. In fact, advisors using a blended approach are the most reliant on asset managers, highlighting a valuable business opportunity.

ACTION 2

Position your solutions with model portfolios.

Prioritize understanding how your solutions potentially align with model portfolios. This begins with data—driving deeper segmentation to uncover who is conducting model business and specifically what type. This is crucial for effectively promoting your offerings. Complement these efforts by optimizing website content to facilitate advisor education, strengthen relationships and support investment solutions.

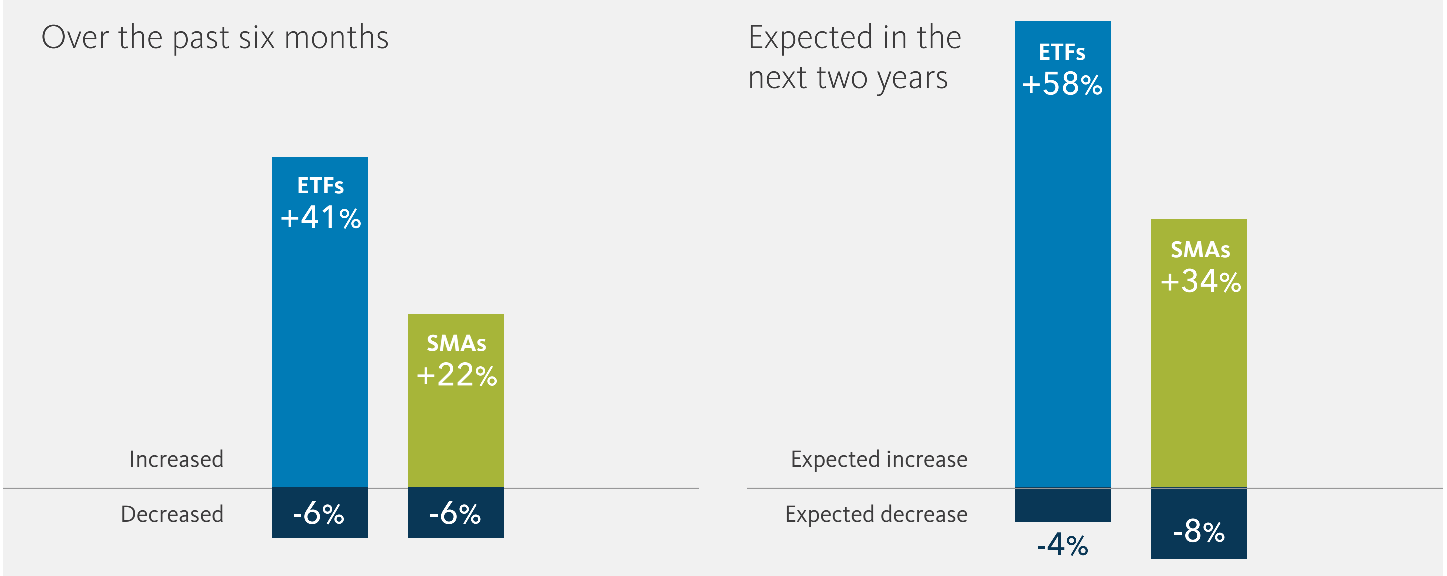
DISTRIBUTION IMPLICATIONS OF ETF AND SMA EXPANSION

The explosive growth of ETFs shows no signs of slowing down. ETFs, and SMAs as well, saw growth in advisor allocations over the past six months. Further, advisors anticipate increasing allocations to both ETFs and SMAs in the next two years, at the expense of actively managed mutual funds: 58% of advisors expect to increase allocations in ETFs and 34% expect to increase allocations in SMAs.

ETFs currently represent one-third of all model types and have increasingly become the primary choice for advisors. As a particularly attractive option to younger investor generations, since 4Q 2018, ETF-only models have sustained the fastest growth at 53%.[2] For advisors and investors, this trend is overwhelmingly driven by the low cost and tax advantages of ETFs.

In comparison, mutual fund-only models comprised 42% of all model types in 3Q 2020—rising just 3% since 2Q 2020. Since 4Q 2018, hybrid models (defined as a mix of ETF and mutual fund products) have grown by 48%. As of 3Q 2020, they represent 25% of all model types.[3]

PERCENTAGE OF ADVISORS CHANGING ALLOCATION IN EACH PRODUCT



For the majority of advisors, active nontransparent ETFs remain unfamiliar territory. However, some advisors indicate plans to redirect client investments from active mutual funds into active nontransparent ETFs (also known as semi-transparent ETFs) over the next 12 months. This presents a valuable opportunity for asset managers to bridge the educational gap with customized content.

ACTION 3

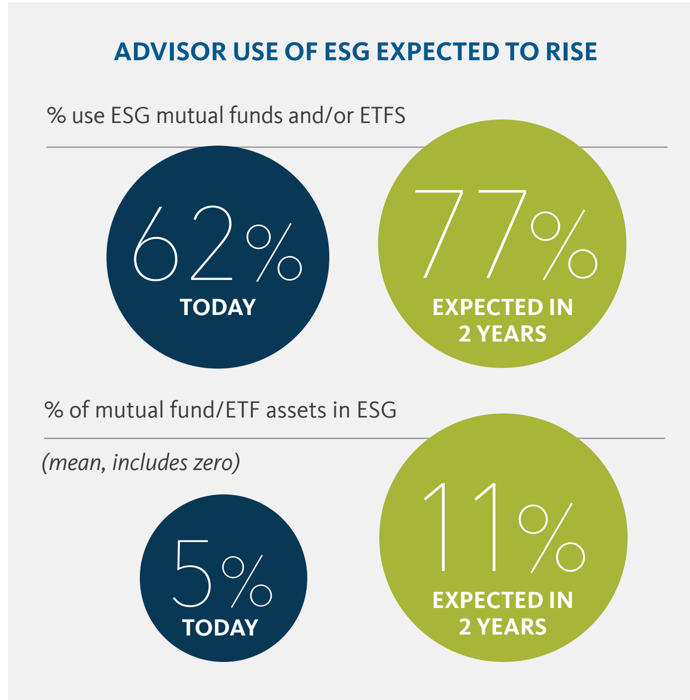
Re-examine your product lineup for expansion into ETFs and/or SMAs.

Asset managers must take a critical look at their product mix. For example, when it comes to expanding ETF offerings, is it better to launch new or convert? How competitive is your product development strategy? At the same time, distribution leaders will need to evaluate sales and marketing support.

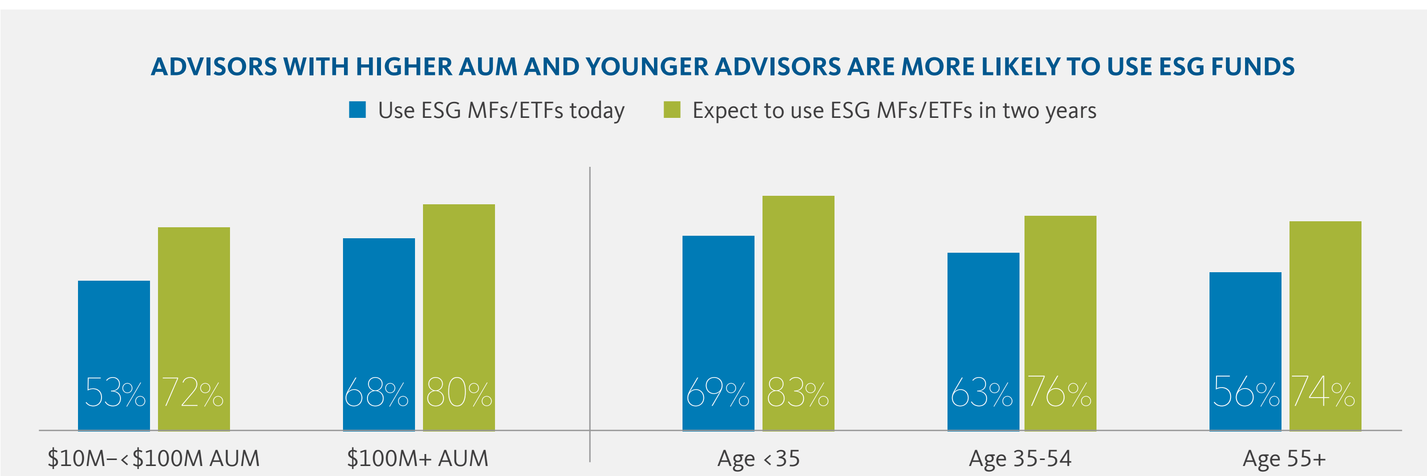
ESG-FOCUSED PRODUCTS ARE PROJECTED TO DELIVER SUSTAINABLE RETURNS

Environmental, Social and Corporate Governance (ESG) products continue to demonstrate sustained growth, maintaining a steady climb during periods of extreme market volatility—a trend projected to continue across all channels in 2021. Today, six out of ten U.S. advisors use ESG funds, and the percentage of clients and percentage of assets invested in ESG products are expected to double in the next two years.

ESG commitment trends also align with client net worth. For advisors with more than half of their clients having net worth of $1 million, 62% plan to increase ESG commitments. For advisors with less than half of their clients exceeding $1 million in net worth, only 49% plan to increase ESG commitments.



Source: Broadridge Portfolio Construction Trends Survey



Source: Broadridge Portfolio Construction Trends Survey

ACTION 4

Define and execute your ESG play.

Assess how your product lineup aligns with ESG. As investors become more concerned with impact investing, asset managers must be prepared for the implications of this shift. Resources providing accessible investor education on ESG will be highly relevant going forward.

SECTION 2: THE FUEL OF CHANGE—DATA AND TECHNOLOGY

As information on performance and fees becomes increasingly transparent, technology is playing a dual role, transforming client engagement and helping to mitigate risk. Technology is empowering investors to be more educated about their options, providing greater access to diverse solutions. Investor consumption of alternative sources of financial advice (e.g. robo-advisors) is a potential threat to traditional advisory services.

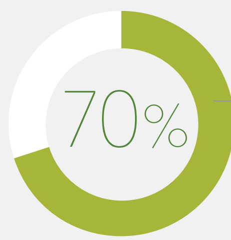
Simultaneously, the advisor relationship with wholesalers is rapidly changing as advisors focus on a more select group of wholesalers. As advisor business models become more complex, asset managers are under increased pressure to improve their approach to advisor targeting—increasing the importance of data-driven segmentation.

THE ADVISOR-WHOLESALER DYNAMIC

The complexity of the current environment—from markets to the products themselves—influences advisor reliance on wholesalers as a resource for providing details on how a particular fund can help clients achieve investment goals. As a result, advisors prefer to learn from wholesalers directly. Currently, advisors rely on an average of four external wholesalers. In fact, 32% decreased their reliance on external wholesalers in the past two years.

Through our research, we have identified a gap in wholesalers' ability to meet advisor needs during the pandemic. Only 10% of advisors found wholesalers to be more helpful in contrast to 22% who indicate they were less helpful. Asset managers who can effectively advise on topics including diversification and volatility are better positioned to gain market share.

The enduring effects of COVID-19 on advisors and asset management will be felt for years to come. Many advisors indicate that the COVID-19 crisis will have a lasting, long-term impact for their practice. This is particularly evident in advisors' broader adoption of technology, to which investors have been receptive.



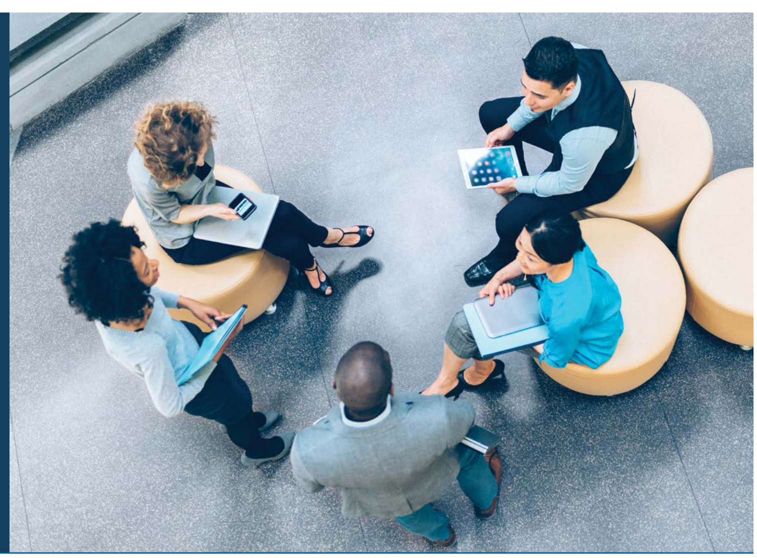
of advisors agree:

The COVID-19 crisis will have **lasting, long-term impacts.**

ACTION 5

Expand your content offerings.

Add value by responding to advisor challenges at the right moment. This is achievable by expanding your content offerings beyond investment-related resources. For example, advisors have indicated an interest in more capital market commentary, especially the type that can be shared with clients directly. Asset managers who identify opportunities to share their unique perspective can deepen their advisor relationships.

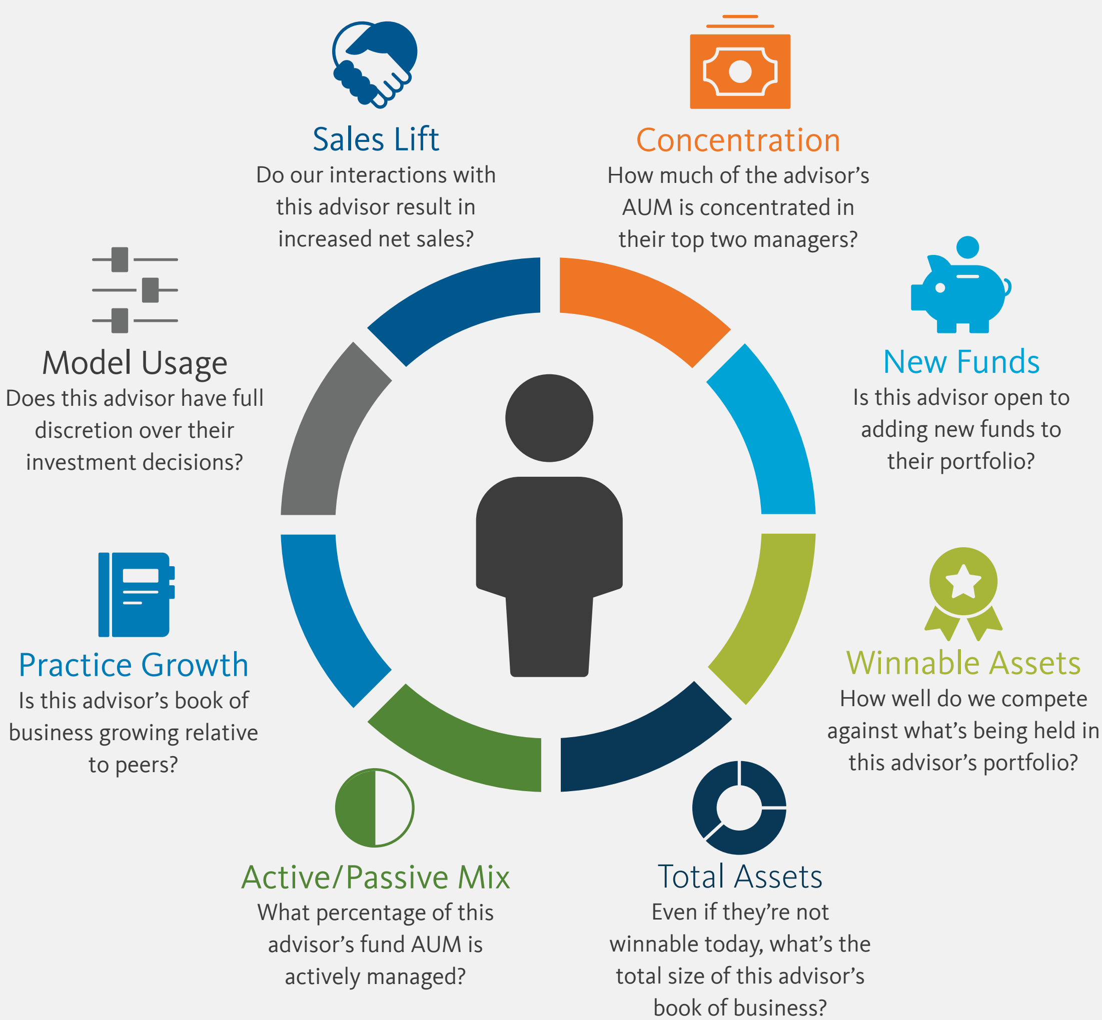


ESSENTIAL COMPONENTS OF SEGMENTATION

Data analytics can offer powerful insights by isolating key attributes of high-performing advisors. Through our research, we have identified eight key traits that should be considered when designing a segmentation strategy: sales lift, concentration, active/passive mix, winnable assets, total assets, new funds, and practice growth. Distribution leaders should evaluate how their interactions with advisors impact sales **(sales lift)**. Advisor AUM should be assessed in two ways: by concentration **(the amount in the top two asset managers)** and by percentage that is actively managed **(active/passive mix)**.

Similarly, assets should be evaluated in two ways: to determine how you stand against the competition in an advisor's portfolio **(winnable assets)** and the size of their book of business **(total assets)**. Advisor openness to adding new funds to their portfolio should be determined **(new funds)** and the growth of their book of business should be measured in comparison to other advisors **(practice growth)**. It will also be critical to determine the level of autonomy the advisor has over their investment choices **(model usage)**.

TRAITS OF THE IDEAL ADVISOR FOR YOUR FIRM



SECTION 3: OPTIMIZE THE ASSET MANAGER TOOLKIT

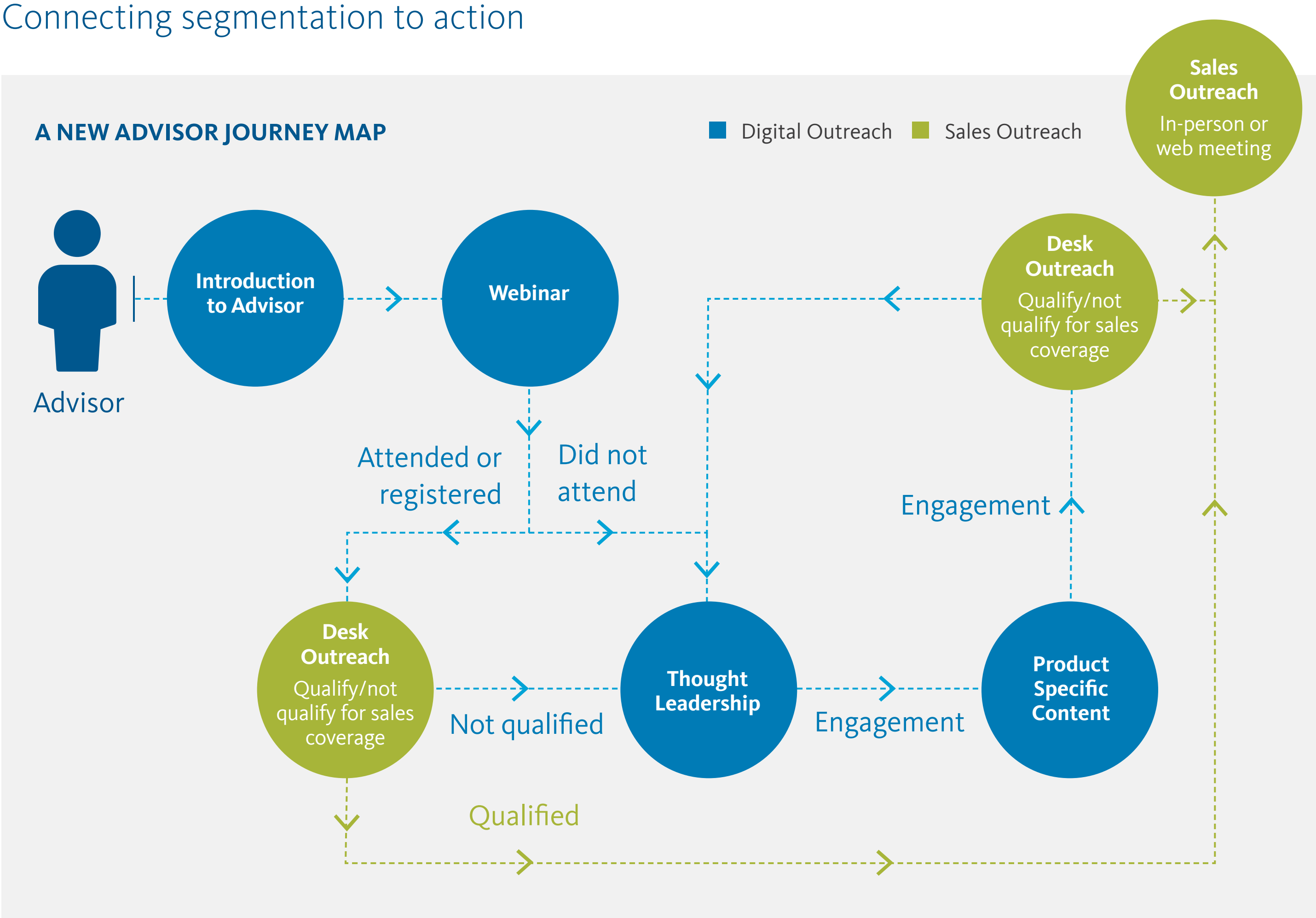
The evolution of the advisor business model offers an opportunity for asset managers to expand their value beyond the investment solution. Reimagining the distribution model begins with effective use of data-driven technology.

Leveraging data analytics allows for smarter targeting of ideal advisors based on key metrics. This approach enables your team to spend more time engaging with advisors and less time synthesizing different datasets and researching advisor business models.

Asset managers must be equipped with the right tools to uncover advisor preferences across the full range of products including mutual funds, ETFs and SMAs. For example, such tools should assess both advisor use of models and level of preference for ESG products, and provide advisor scoring capabilities. It is crucial to remain flexible in the face of changing advisor needs.

Reimagining the distribution model begins with effective use of data-driven technology.

Connecting segmentation to action



THE STRATEGIC APPROACH TO ADVISOR ENGAGEMENT

The ability to target specific groups of advisors is often impeded by challenges with organizational alignment, limited technology capabilities and resource constraints. Establishing a systematic and customizable engagement strategy is essential for success.

Segmentation is a critical component of effective advisor journey mapping and must be conducted based on advisor needs rather than channel and sales volume. This is a shift away from traditional segmentation practices, but is critical for strengthening relationships that are mutually beneficial to all parties.[4]

ACTION 6

Achieve smarter targeting with data-driven segmentation.

The pandemic put additional pressure on sales teams struggling to effectively identify their targets. The traditional discovery process is substantially limited in today's market. Scoring advisor potential is multi-faceted and requires a deepened grasp of behavior and performance patterns that only data can reveal. Firms not only need access to more robust data, they need ways to analyze this information in efficient and effective ways.

Advisor journey mapping may also identify opportunities to support advisors in client servicing and acquisition efforts. For example, packaging communications for ‘client-use’ and developing programs to help advisors engage with prospects can deepen relationships and differentiate your firm from the competition.

ACTION 7

Design customer journeys and task marketing to execute.

Designing the advisor journey up front provides a way to reach prospective advisors more efficiently accessed via digital and social platforms, as well as to maintain current, less efficient advisor relationships. Shifting some advisor outreach responsibilities to marketing is a more cost-effective and scalable way to succeed.

"There's no doubt that the pace of change in the industry has accelerated. The resulting question for asset managers is, 'How can we adjust our business model not only to adapt to changes, but to take advantage of them, while we continue to support advisors and connect with investors?' These seven action steps, either taken separately or in combination, can go a long way to helping firms stay a step ahead."

MATT SCHIFFMAN, PRINCIPAL OF DISTRIBUTION INSIGHT, BROADRIDGE FINANCIAL SOLUTIONS

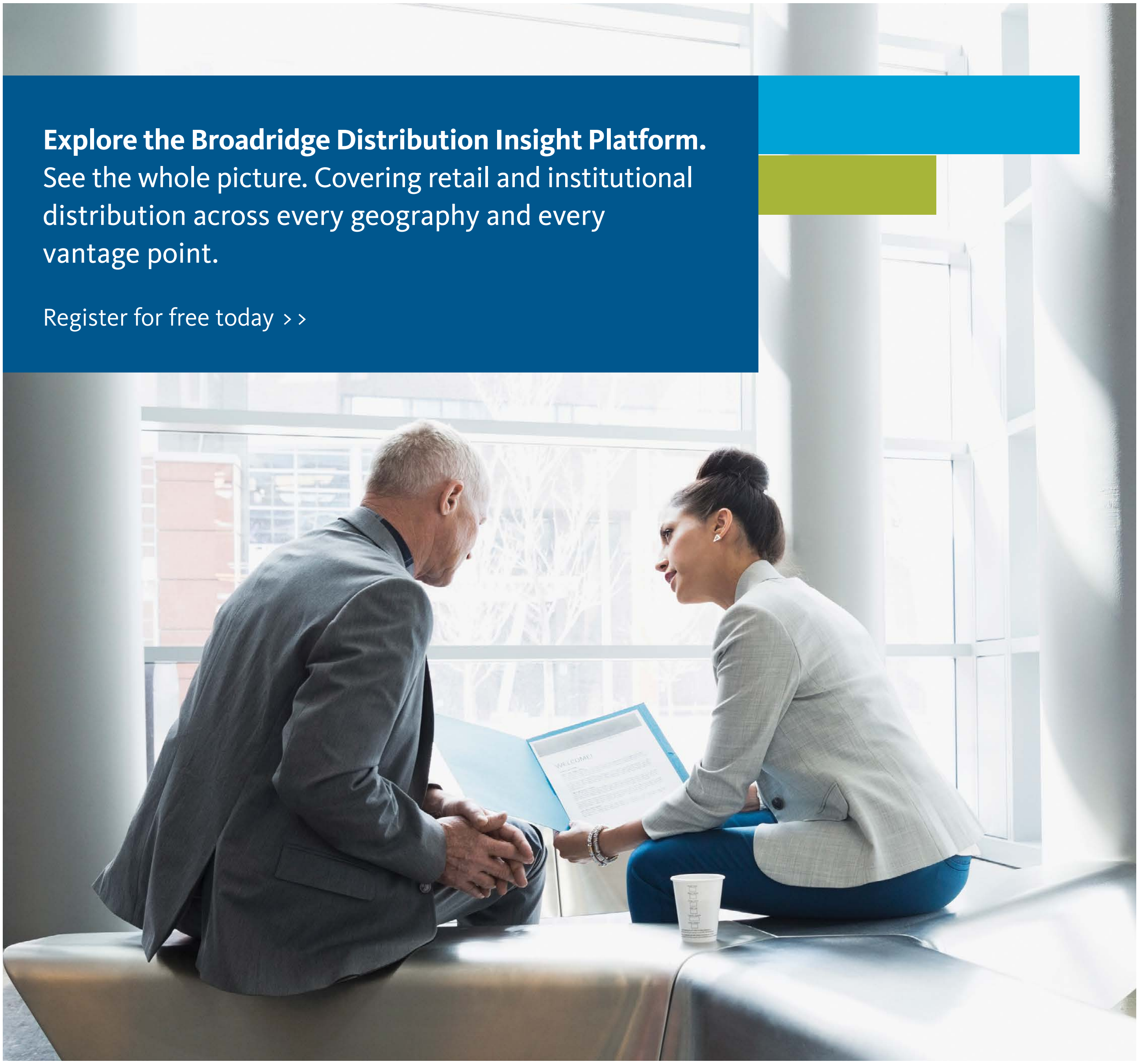
CONQUER THE CHALLENGES OF EVOLVING DISTRIBUTION WITH DECISIVE ACTIONS

Distribution trends are accelerating—and asset managers must take their next best action now to secure their future. The process begins with a thorough understanding of how to align your offerings with the needs of your targeted advisor segments. Through this process, you will gain insight on how to add value by delivering relevant resources that help educate advisors.

With increased use of model portfolios, the rapid expansion of ETFs and increasing interest in ESG products, leveraging data analytics to accelerate targeting and segmentation is critical for success. This approach should be complemented by a systematic and customizable engagement strategy. Asset managers should not limit their content offerings to investment resources. Seize the opportunity to deepen your advisor relationships—respond to advisor challenges with your unique expertise.

Broadridge delivers rich, data-driven insights to prepare the industry for what's next and propel ambitious professionals ahead of the competition. Leverage our expertise to track asset flows, measure market share, segment and score advisors, identify opportunities and benchmark sales performance across U.S. retail distribution. Broadridge is uniquely positioned to see what's coming. We're equipped with the data, technology and digital expertise to deliver transformative solutions.

Broadridge Distribution Insight delivers the analytics and strategic expertise asset managers need to stay in front of fast-moving trends and make more informed decisions. Partnering side-by-side, we'll help create a distribution strategy to execute on every opportunity.



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FOOTNOTES

[1] forbes.com
[2] Model Quarterly Trend Report, Broadridge Data & Analytics
[3] Model Quarterly Trend Report, Broadridge Data & Analytics
[4] Broadridge, Data and the Search for Deeper Relationships

Broadridge, a global Fintech leader with over $4.5 billion in revenues and part of the S&P 500® Index, provides communications, technology, data and intelligence. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

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